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AZ CORP COMMISSION  
DOCKET CONTROL

March 26, 2009

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Commissioner Gary Pierce  
Commissioner Paul Newman  
Commissioner Sandra Kennedy  
Commissioner Bob Stump  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

RE: Arizona Public Service Company's Comments and Support Energy Efficiency Workshop  
Docket No. E-00000J-08-0314 & G-00000C-08-0314

Arizona Corporation Commission Staff held a workshop on Energy Efficiency on March 6, 2009. At that workshop, Commissioners requested that parties provide additional information related to the impacts of increased energy efficiency targets. Attached is Arizona Public Service Company's Energy Efficiency Analysis and supporting documentation.

If you have any questions please call Jeff Johnson at 602-250-2661.

  
Leland R. Snook


Attachments

LS/dt

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Arizona Corporation Commission  
DOCKETED

MAR 26 2009

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**Arizona Public Service Company**  
**Materials in Support of Energy Efficiency Workshop**  
**E-00000J-08-0314 & G-00000C-08-0314**  
**March 26, 2009**

In the last Energy Efficiency Workshop, the Commission requested that participants provide additional information, including:

- The impact that increased Energy Efficiency targets would have on customer bills;
- The impact of performance incentives at levels that include meeting 85% of the target, meeting the target and exceeding the target;
- The impact of ratemaking mechanisms that would address the effect of declining sales volumes resulting from higher Energy Efficiency targets; and
- The effect that increased Energy Efficiency would have on the utility's energy purchases and need for new infrastructure.

Arizona Public Service ("APS" or "Company") has prepared the attached Exhibits A through D in response to these inquiries.

Impacts of Energy Efficiency Targets

The APS Exhibits illustrate the estimated total costs of a range of different Energy Efficiency targets, broken down by Program Costs, Performance Incentive Costs, Rate Making Adjustments, Capital Expenditure Savings, and Fuel and Purchased Power Savings for the years 2010, 2015, and 2020. Also included are the average customer bill impacts for both residential and commercial customers, and total dollar cost for these years.

The following describes the key assumptions the Company included in each of the principal components.

Program Costs

Program Costs include customer incentives, customer education and marketing expenses, measurement and evaluation, program implementation, and other costs that are incurred to produce Energy Efficiency savings. APS used its Market Potential Study as the basis to estimate these costs. The Study was filed in Docket No. E-01345A-05-0812 on September 12, 2007, and was performed by ICF International, a leading expert in this field. The Study identified the potential costs associated with varying energy savings levels in the APS service territory. The degree of confidence in these program cost estimates is obviously higher in the near term. The effects of new or emerging technologies and trends in customer adoption are more difficult to forecast in later years.

### Performance Incentives

As requested, three separate performance incentive levels have been represented in each Exhibit. The levels demonstrate the results if the utility meets 85% of the Energy Efficiency target, if the utility meets 100% of the target, and if the utility exceeds the target. Performance Incentives are assumed in each scenario, but would only be realized if APS is successful in reaching the applicable Energy Efficiency target level.

### Capital Expenditure Savings

Capital Expenditure Savings reflect the reduced revenue requirement associated with the estimated amount of capital APS would expect to defer if 100% of the estimated cumulative Energy Efficiency savings are realized for each scenario.

### Fuel and Purchase Power Savings

Much like the Capital Expenditure Savings, the Fuel and Purchase Power Savings represent the estimated savings of fuel and purchased power expense when the Energy Efficiency measures are fully implemented.

### Rate Making Adjustment Costs

Because APS is a cost-of-service regulated electric utility, the ratemaking process involves certain assumptions regarding sales volumes when rates are established in a rate case. In general, revenue requirement established in a rate case is recovered through a combination of fixed and variable charges that depend on assumed sales volumes. As Energy Efficiency reduces sales volumes, the ratemaking assumptions used to set rates result in an under-recovery of margins absent some offsetting ratemaking mechanism, whether that be a future test year, a pro forma adjustment, decoupling, and a change in rate design or some other mechanism. The Rate Making Adjustment Costs reflected in the Exhibits show the impact of this ratemaking issue without making an assumption on a specific mechanism to address these costs.

### Baseline Program Assumptions

APS's current program spending and costs are the baseline for this bill impact analysis. APS's current annual spending on DSM programs was approximately \$1 million in 2004, and has increased more than twenty-fold to approximately \$24 million in 2008. Since the inception of APS's current programs in 2005 and 2006, the Company's DSM programs have resulted in an annual savings of 565,000 megawatt hours, which is equivalent to saving enough energy to power over 40,000 average households for a year, a lifetime savings of 5,367,000 megawatt hours, and a peak demand savings of 80 megawatts. Current programs achieved 0.8% annual energy savings in 2008. Costs for APS's current DSM programs are recovered through a combination of base rates (\$10 million) and the DSM adjustment mechanism (which funds the remaining required spending level).

# Energy Efficiency Workshop Bill Impact Analysis Key

Exhibit A

Estimate of Program Costs for the year to achieve EES target percentage.

Performance incentive cost. Note that only one of the alternatives (a) (b) or (c) would apply for the year depending on what level was achieved.

This column displays total dollars in excess of current spending levels for the year for each cost element. Inflationary impacts are not considered.

EES Percent of Retail Energy	Bill Impact Component	Estimated \$\$ in 2010 (in \$000s)	\$ Change in Avg. Residential Customer Monthly Bill Change	\$ Change in Avg. Business Customer Monthly Bill Change
1.00%	<b>Program Costs</b>	\$ 15,093	\$ 0.537	\$ 3.877
	<b>Performance Incentive Cost (Alternatives)</b>			
	(a) Meeting 85% of Target	\$ 4,282	\$ 0.152	\$ 1.095
	(b) Meeting Target	\$ 7,212	\$ 0.250	\$ 1.804
	(c) Exceeding Target	\$ 10,532	\$ 0.370	\$ 2.669
	<b>Revenue Requirement Impacts</b>			
	Rate Making Adjustment	\$ 5,617	\$ 0.193	\$ 1.395
	Capital Expenditure Savings	\$ -	\$ -	\$ -
	Fuel & Purchase Power Savings	\$ (19,800)	\$ (0.709)	\$ (5.116)
	<b>Total Incremental Bill Impact</b>			
	With Perf. Inc. @ 85% of Target	\$ 5,191	\$ 0.172	\$ 1.251
	With Perf. Inc. @ Meeting Target	\$ 8,122	\$ 0.271	\$ 1.959
	With Perf. Inc. @ Exceeding Target	\$ 11,442	\$ 0.391	\$ 2.825

Impact to cost of service ratemaking model from declining sales. As stated, this figure is independent of the means of recovery, such as through a future test year, rate design, an adjustment mechanism, or a rate reset in a subsequent rate case.

APS estimate of avoided capital expenditures for the year. The 1% and 2% saving scenarios were extrapolated from a detailed 1.5% analysis.

APS estimate of avoided fuel and purchased power costs for the year.

Total bill impact of program costs, performance incentive cost, and revenue requirement impacts, depending on performance incentive level achieved.

This column displays the change in average residential customer monthly bills from current average monthly bills (which include DSM costs) for the given year for each cost element. Inflationary impacts are not considered.

This column displays the change in average business customer monthly bills from current average monthly bills (which include DSM costs) for the given year for each cost element. Inflationary impacts are not considered.

**APS's 2010 SUMMARY OF CUSTOMER BILL IMPACTS FROM DSM**  
**Incremental Changes over Current Level of DSM**

EES Percent of Retail Energy	Bill Impact Component	Estimated \$ in 2010 (in \$000s)	\$ Change in Avg. Residential Customer Monthly Bill		%	\$ Change in Avg. Business Customer Monthly Bill		%
					Change *			Change
1.00%	<b>Program Costs</b>	\$ 15,093	\$ 0.537		0.5%	\$ 3.877		0.5%
	<b>Performance Incentive Cost (Alternatives)</b>							
	(a) Meeting 85% of Target	\$ 4,282	\$ 0.152		0.1%	\$ 1.095		0.1%
	(b) Meeting Target	\$ 7,212	\$ 0.250		0.2%	\$ 1.804		0.2%
	(c) Exceeding Target	\$ 10,532	\$ 0.370		0.3%	\$ 2.669		0.3%
	<b>Revenue Requirement Impacts</b>							
	Rate Making Adjustment	\$ 5,617	\$ 0.193		0.2%	\$ 1.395		0.2%
	Capital Expenditure Savings	\$ -	\$ -		0.0%	\$ -		0.0%
	Fuel & Purchase Power Savings	\$ (19,800)	\$ (0.709)		-0.6%	\$ (5.116)		-0.6%
	<b>Total Incremental Bill Impact</b>							
	With Perf. Inc. @ 85% of Target	\$ 5,191	\$ 0.172		0.2%	\$ 1.251		0.2%
	With Perf. Inc. @ Meeting Target	\$ 8,122	\$ 0.271		0.2%	\$ 1.959		0.2%
	With Perf. Inc. @ Exceeding Target	\$ 11,442	\$ 0.391		0.4%	\$ 2.825		0.3%
1.50%	<b>Program Costs</b>	\$ 23,978	\$ 0.848		0.8%	\$ 6.124		0.7%
	<b>Performance Incentive Cost (Alternatives)</b>							
	(a) Meeting 85% of Target	\$ 2,123	\$ 0.075		0.1%	\$ 0.541		0.1%
	(b) Meeting Target	\$ 3,747	\$ 0.129		0.1%	\$ 0.933		0.1%
	(c) Exceeding Target	\$ 5,372	\$ 0.195		0.2%	\$ 1.404		0.2%
	<b>Revenue Requirement Impacts</b>							
	Rate Making Adjustment	\$ 8,923	\$ 0.311		0.3%	\$ 2.247		0.3%
	Capital Expenditure Savings	\$ -	\$ -		0.0%	\$ -		0.0%
	Fuel & Purchase Power Savings	\$ (24,513)	\$ (0.870)		-0.8%	\$ (6.278)		-0.8%
	<b>Total Incremental Bill Impact</b>							
	With Perf. Inc. @ 85% of Target	\$ 10,510	\$ 0.364		0.3%	\$ 2.634		0.3%
	With Perf. Inc. @ Meeting Target	\$ 12,135	\$ 0.419		0.4%	\$ 3.026		0.4%
	With Perf. Inc. @ Exceeding Target	\$ 13,759	\$ 0.484		0.4%	\$ 3.497		0.4%
2.00%	<b>Program Costs</b>	\$ 54,918	\$ 1.943		1.7%	\$ 14.011		1.7%
	<b>Performance Incentive Cost (Alternatives)</b>							
	(a) Meeting 85% of Target	\$ 1,233	\$ 0.039		0.0%	\$ 0.284		0.0%
	(b) Meeting Target	\$ 2,561	\$ 0.093		0.1%	\$ 0.668		0.1%
	(c) Exceeding Target	\$ 3,889	\$ 0.135		0.1%	\$ 0.976		0.1%
	<b>Revenue Requirement Impacts</b>							
	Rate Making Adjustment	\$ 20,445	\$ 0.725		0.7%	\$ 5.225		0.6%
	Capital Expenditure Savings	\$ -	\$ -		0.0%	\$ -		0.0%
	Fuel & Purchase Power Savings	\$ (60,083)	\$ (2.132)		-1.9%	\$ (15.370)		-1.9%
	<b>Total Incremental Bill Impact</b>							
	With Perf. Inc. @ 85% of Target	\$ 16,514	\$ 0.575		0.5%	\$ 4.150		0.5%
	With Perf. Inc. @ Meeting Target	\$ 17,842	\$ 0.629		0.6%	\$ 4.535		0.6%
	With Perf. Inc. @ Exceeding Target	\$ 19,170	\$ 0.671		0.6%	\$ 4.842		0.6%

\* Reflects percentage change necessary in 2010.

**APS's 2015 SUMMARY OF CUSTOMER BILL IMPACTS FROM DSM**  
**Incremental Changes over Current Level of DSM**

EES Percent of Retail Energy	Bill Impact Component	Estimated \$s in 2015 (in \$000s)	\$ Change in Avg. Residential Customer Monthly Bill		\$ Change in Avg. Business Customer Monthly Bill	% Change
				% Change *		
1.00%	<b>Program Costs</b>	\$ 121,456	\$ 3,823	3.6%	\$ 26,661	3.5%
	<b>Performance Incentive Cost (Alternatives)</b>					
	(a) Meeting 85% of Target	\$ 22,734	\$ 0,718	0.7%	\$ 5,004	0.7%
	(b) Meeting Target	\$ 33,128	\$ 1,052	1.0%	\$ 7,337	1.0%
	(c) Exceeding Target	\$ 44,908	\$ 1,418	1.3%	\$ 9,887	1.3%
	<b>Revenue Requirement Impacts</b>					
	Rate Making Adjustment	\$ 40,504	\$ 1,272	1.2%	\$ 8,871	1.2%
	Capital Expenditure Savings	\$ (13,939)	\$ (0,439)	-0.4%	\$ (3,061)	-0.4%
	Fuel & Purchase Power Savings	\$ (53,583)	\$ (1,693)	-1.6%	\$ (11,807)	-1.6%
	<b>Total Incremental Bill Impact</b>					
	With Perf. Inc. @ 85% of Target	\$ 117,172	\$ 3,681	3.5%	\$ 25,669	3.4%
	With Perf. Inc. @ Meeting Target	\$ 127,566	\$ 4,015	3.8%	\$ 28,001	3.7%
	With Perf. Inc. @ Exceeding Target	\$ 139,346	\$ 4,381	4.1%	\$ 30,552	4.0%
1.50%	<b>Program Costs</b>	\$ 263,386	\$ 8,257	7.7%	\$ 57,592	7.6%
	<b>Performance Incentive Cost (Alternatives)</b>					
	(a) Meeting 85% of Target	\$ 26,117	\$ 0,824	0.8%	\$ 5,750	0.8%
	(b) Meeting Target	\$ 35,560	\$ 1,118	1.0%	\$ 7,797	1.0%
	(c) Exceeding Target	\$ 45,003	\$ 1,411	1.3%	\$ 9,845	1.3%
	<b>Revenue Requirement Impacts</b>					
	Rate Making Adjustment	\$ 63,867	\$ 2,003	1.9%	\$ 13,972	1.8%
	Capital Expenditure Savings	\$ (22,627)	\$ (0,708)	-0.7%	\$ (4,941)	-0.7%
	Fuel & Purchase Power Savings	\$ (141,936)	\$ (4,453)	-4.2%	\$ (31,060)	-4.1%
	<b>Total Incremental Bill Impact</b>					
	With Perf. Inc. @ 85% of Target	\$ 188,808	\$ 5,923	5.6%	\$ 41,314	5.4%
	With Perf. Inc. @ Meeting Target	\$ 198,251	\$ 6,216	5.8%	\$ 43,361	5.7%
	With Perf. Inc. @ Exceeding Target	\$ 207,694	\$ 6,510	6.1%	\$ 45,408	6.0%
2.00%	<b>Program Costs</b>	\$ 385,906	\$ 12,005	11.3%	\$ 83,747	11.0%
	<b>Performance Incentive Cost (Alternatives)</b>					
	(a) Meeting 85% of Target	\$ 18,079	\$ 0,567	0.5%	\$ 3,958	0.5%
	(b) Meeting Target	\$ 24,842	\$ 0,779	0.7%	\$ 5,432	0.7%
	(c) Exceeding Target	\$ 31,606	\$ 0,990	0.9%	\$ 6,905	0.9%
	<b>Revenue Requirement Impacts</b>					
	Rate Making Adjustment	\$ 89,096	\$ 2,770	2.6%	\$ 19,326	2.5%
	Capital Expenditure Savings	\$ (36,786)	\$ (1,142)	-1.1%	\$ (7,969)	-1.1%
	Fuel & Purchase Power Savings	\$ (217,434)	\$ (6,768)	-6.3%	\$ (47,214)	-6.2%
	<b>Total Incremental Bill Impact</b>					
	With Perf. Inc. @ 85% of Target	\$ 238,861	\$ 7,432	7.0%	\$ 51,848	6.8%
	With Perf. Inc. @ Meeting Target	\$ 245,624	\$ 7,643	7.2%	\$ 53,321	7.0%
	With Perf. Inc. @ Exceeding Target	\$ 252,388	\$ 7,855	7.4%	\$ 54,795	7.2%

\* Reflects percentage change necessary in 2015.



**APS's 2020 SUMMARY OF CUSTOMER BILL IMPACTS FROM DSM**  
**Incremental Changes over Current Level of DSM**

EES Percent of Retail Energy	Bill Impact Component	Estimated \$ in 2020 (in \$000s)	\$ Change in Avg. Residential Customer Monthly Bill		\$ Change in Avg. Business Customer Monthly Bill	
				% Change *		% Change
1.00%	<b>Program Costs</b>	\$ 182,221	\$ 4.921	4.7%	\$ 33.560	4.6%
	<b>Performance Incentive Cost (Alternatives)</b>					
	(a) Meeting 85% of Target	\$ 33,446	\$ 0.903	0.9%	\$ 6.161	0.8%
	(b) Meeting Target	\$ 48,294	\$ 1.312	1.3%	\$ 8.946	1.2%
	(c) Exceeding Target	\$ 65,123	\$ 1.761	1.7%	\$ 12.010	1.7%
	<b>Revenue Requirement Impacts</b>					
	Rate Making Adjustment	\$ 35,688	\$ 0.972	0.9%	\$ 6.626	0.9%
	Capital Expenditure Savings	\$ (86,983)	\$ (2.348)	-2.3%	\$ (16.015)	-2.2%
	Fuel & Purchase Power Savings	\$ (141,396)	\$ (3.819)	-3.7%	\$ (26.042)	-3.6%
	<b>Total Incremental Bill Impact</b>					
	With Perf. Inc. @ 85% of Target	\$ 22,975	\$ 0.629	0.6%	\$ 4.290	0.6%
	With Perf. Inc. @ Meeting Target	\$ 37,823	\$ 1.038	1.0%	\$ 7.075	1.0%
	With Perf. Inc. @ Exceeding Target	\$ 54,652	\$ 1.487	1.4%	\$ 10.139	1.4%
1.50%	<b>Program Costs</b>	\$ 348,456	\$ 9.345	9.0%	\$ 63.714	8.8%
	<b>Performance Incentive Cost (Alternatives)</b>					
	(a) Meeting 85% of Target	\$ 34,626	\$ 0.937	0.9%	\$ 6.389	0.9%
	(b) Meeting Target	\$ 46,899	\$ 1.259	1.2%	\$ 8.581	1.2%
	(c) Exceeding Target	\$ 59,172	\$ 1.590	1.5%	\$ 10.839	1.5%
	<b>Revenue Requirement Impacts</b>					
	Rate Making Adjustment	\$ 44,947	\$ 1.205	1.2%	\$ 8.217	1.1%
	Capital Expenditure Savings	\$ (127,005)	\$ (3.409)	-3.3%	\$ (23.244)	-3.2%
	Fuel & Purchase Power Savings	\$ (261,688)	\$ (7.032)	-6.7%	\$ (47.948)	-6.6%
	<b>Total Incremental Bill Impact</b>					
	With Perf. Inc. @ 85% of Target	\$ 39,337	\$ 1.046	1.0%	\$ 7.129	1.0%
	With Perf. Inc. @ Meeting Target	\$ 51,609	\$ 1.367	1.3%	\$ 9.320	1.3%
	With Perf. Inc. @ Exceeding Target	\$ 63,882	\$ 1.698	1.6%	\$ 11.578	1.6%
2.00%	<b>Program Costs</b>	\$ 584,418	\$ 15.451	14.8%	\$ 105.324	14.5%
	<b>Performance Incentive Cost (Alternatives)</b>					
	(a) Meeting 85% of Target	\$ 28,016	\$ 0.740	0.7%	\$ 5.045	0.7%
	(b) Meeting Target	\$ 38,085	\$ 1.006	1.0%	\$ 6.855	0.9%
	(c) Exceeding Target	\$ 48,154	\$ 1.280	1.2%	\$ 8.725	1.2%
	<b>Revenue Requirement Impacts</b>					
	Rate Making Adjustment	\$ 74,788	\$ 1.981	1.9%	\$ 13.502	1.9%
	Capital Expenditure Savings	\$ (205,096)	\$ (5.434)	-5.2%	\$ (37.043)	-5.1%
	Fuel & Purchase Power Savings	\$ (398,456)	\$ (10.549)	-10.1%	\$ (71.913)	-9.9%
	<b>Total Incremental Bill Impact</b>					
	With Perf. Inc. @ 85% of Target	\$ 83,669	\$ 2.188	2.1%	\$ 14.915	2.1%
	With Perf. Inc. @ Meeting Target	\$ 93,738	\$ 2.454	2.4%	\$ 16.725	2.3%
	With Perf. Inc. @ Exceeding Target	\$ 103,807	\$ 2.728	2.6%	\$ 18.595	2.6%

\* Reflects percentage change necessary in 2020.